

Message Text

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ORIGIN ARA-03

INFO OCT-01 ISO-00 /004 R

66617

DRAFTED BY: ARA/BC/C:AMISAACS

APPROVED BY: ARA/BC:JEKARKASHIAN

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R 251709Z FEB 75

FM SECSTATE WASHDC

TO AMEMBASSY SANTIAGO

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FOLLOWING REPEAT LONDON 2583 SENT SECSTATE DATED FEB 19.

QUOTE

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E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: REQUEST FOR INFORMATION RE COPPER MARKET --
MARKET OUTLOOK

REF: A) STATE 34131; B) EMBASSY-EB/ISM & EB/IFD TELCON

1. AS DISCUSSED IN TELCON (REF B), THIS CABLE PROVIDES A BRIEF SURVEY OF COPPER WIREBAR MARKET PROSPECTS FOR 1975 AND 1976, BASED ON HMG AND TRADE SOURCES. CONCERNING REQUEST IN REF (A) FOR A DETAILED INDUSTRY AND MARKET ANALYSIS, WE ARE UNABLE TO PROVIDE AN IN-DEPTH STUDY ON SHORT NOTICE; HOWEVER, WE HAVE BEEN IN TOUCH WITH THE COMMODITIES RESEARCH UNIT (CRU), A LONDON-BASED ORGANIZATION WHICH HAS DONE A NUMBER OF STUDIES IN THIS FIELD (INCLUDING PRICE PROJECTIONS ON FIFTEEN MONTH BASIS).

CRU, WHICH LISTS OPIC (ALUMINUM), THE US BUREAU OF MINES, KENNECOTT AND ANACONDA AMONG ITS CUSTOMERS, SUGGESTED THAT DEPARTMENT MAY WISH TO APPROACH ITS NEW YORK OFFICE

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(LOUIS PERLMAN OR ROBERT LESMAN, TELEPHONE 212-371-8300)

FOR ASSISTANCE.

2. CONCERNING MARKET PICTURE, PRICES FOR LME WIRE-BAR ROSE IN EARLY 1974, FROM A JANUARY MEAN CASH PRICE OF POUNDS STERLING 913.22 PER METRIC TON TO 1267.73 IN APRIL. PRICES DECLINED THEREAFTER, REACHING A LOW MEAN PRICE OF 553.24 IN DECEMBER. THE DECLINE CONTINUED INTO JANUARY, TO 512.40. CLOSING PRICE ON FEBRUARY 19, MORNING SESSION WAS 538.9 AND THREE MONTH PRICE, 546.5.

3. OUTLOOK FOR 1975 AND 1976 WAS DESCRIBED BY UK DEPARTMENT OF INDUSTRIES OFFICIAL AS "UNCERTAIN," WITH FURTHER DECLINES CERTAINLY POSSIBLE BUT BY NO MEANS SURE. HOWEVER, THERE IS A FAIRLY WIDELY HELD VIEW IN THE TRADE (I.E., AMONG LME MEMBERS) THAT THE MARKET HAS BOTTOMED OUT, BUT WITH NO IMMEDIATE PROSPECT FOR AN UPSWING. ONE SOURCE TOLD EMBOFF HE EXPECTS BETTER THAN 50-50 CHANCE THAT MARKET WILL BE CLOSE TO STATIC FOR BALANCE OF 1975, WITH VARIATION FOR THE YEAR ON THE ORDER OF 50 POUNDS STERLING (AS AGAINST A RISE OF 350 POUNDS EARLY IN 1974 FOLLOWED BY A DECLINE OF SOME 700 POUNDS FROM APRIL TO DECEMBER.) HE THOUGHT SOME UPTURN MIGHT DEVELOP IN 1976.

4. FACTORS WHICH WILL BEAR IMPORTANTLY ON THE MARKET INCLUDE:

(A) COURSE OF RECESSION IN INDUSTRIALIZED ECONOMIES. THIS FOCUSES PARTICULARLY ON THE US AND THE SPEED AND EFFECTIVENESS OF US EFFORTS TO INCREASE DOMESTIC ECONOMIC ACTIVITY. HMG SOURCE THOUGHT IN ANY CASE THERE WOULD BE A LAG EFFECT ON COPPER, BUT TRADE SOURCE CLAIMED INDUSTRY STOCKS ARE NOW LOW--AND IF MANAGERS BELIEVE US POLICIES ARE LIKELY TO SUCCEED THEY WILL TRY TO ANTICIPATE ANY US UPTURN BY BEGINNING TO REBUILD INVENTORIES.

(B) STOCKS OVERHANGING MARKET. INDUSTRIAL INVENTORIES MAY BE LOW, BUT STOCKS IN GENERAL ARE NOT. SAME TRADE SOURCE SAID LME STOCKPILE, WHICH DECLINED FROM 290,000 TONS TO 20,000 TONS LAST YEAR, IS ON RISE AGAIN, WITH THE CURRENT LEVEL AT 160,000 METRIC TONS.

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JAPANESE BUILD UP WAS CITED BY HMG SOURCE. SUCH OVERHANGS, OF COURSE, TEND TO HAVE A DAMPENING EFFECT ON PRICE.

(C) SUCCESS OF CIPEC. IT IS RECOGNIZED THAT CIPEC THEORETICALLY COULD BOLSTER PRICES BY GOOD SUPPLY MANAGEMENT. ALSO, SOME SORT OF INTERNATIONAL BUFFER STOCK OPERATION MIGHT YET BE PUT INTO OPERATION, WITH SIMILAR

EFFECTS. HOWEVER, LIKELIHOOD OF SUCCESS IS ANOTHER QUESTION.

5. IN SUM, WHILE THERE ARE VARIABLES WHICH COULD CHANGE THE OUTLOOK, NO UPTURN SEEMS IN PROSPECT AT LEAST THROUGH 1975 AND EVEN SOME, PROBABLY MODERATE, FURTHER DECLINES ARE POSSIBLE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COPPER, INDUSTRIAL PRODUCTION, REPORTS, SURVEYS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE042046
Document Source: CORE
Document Unique ID: 00
Drafter: ARA/BC/C:AMISAACS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750067-0606
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750214/aaaaamiz.tel
Line Count: 124
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 34131, 75 EMBASSY-EB/ISM
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUN 2003 by BoyleJA>; APPROVED <12 NOV 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REQUEST FOR INFORMATION RE COPPER MARKET -- MARKET OUTLOOK
TAGS: EFIN, UK
To: SANTIAGO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006